

**Northeast Community Services Agency**

**For the Year Ended  
June 30, 1998**

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September 9, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Northeast Community Services Agency  
Johnson City, Tennessee 37605

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Northeast Community Services Agency for the year ended June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ms  
98/094

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Northeast Community Services Agency**  
For the Year Ended June 30, 1998

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## COMPLIANCE FINDING

### **Expenses Incurred before Contracts Properly Approved\***

The agency entered into and incurred expenses on three fiscal-year-1999 contracts before the 1999 Plan of Operation and the individual contracts were approved (page 7).

\* This finding is repeated from the prior audit.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Northeast Community Services Agency**  
**For the Year Ended June 30, 1998**

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**TABLE OF CONTENTS**

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	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
Repeated Audit Finding		3
<b>OBSERVATIONS AND COMMENTS</b>		3
<b>RESULTS OF THE AUDIT</b>		4
Audit Conclusions		4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
Finding and Recommendation		7
• The agency incurred expenses before contracts were properly approved		7
<b>FINANCIAL STATEMENTS</b>		
Independent Auditor's Report		9
Combined Balance Sheets	A	11
Statements of Revenues, Expenditures, and Changes in Fund Balances	B	12

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## TABLE OF CONTENTS (CONT.)

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	<u>Exhibit</u>	<u>Page</u>
Notes to the Financial Statements		13
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		24
Schedule of Pension Funding Progress		24
Disclosure of Year 2000 Issues		25
<b>APPENDIX</b>		27
Board of Directors		27

# **Northeast Community Services Agency For the Year Ended June 30, 1998**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Northeast Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

### **BACKGROUND**

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Northeast Community Services Agency comprises the following counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, and Washington. The agency’s administrative offices are in Johnson City, Tennessee.

The governing body of the Northeast Community Services Agency is the board of directors. As of June 30, 1998, the board was composed of ten members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Northeast Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act as amended.**

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Northeast Community Services Agency filed its



report with the Department of Audit on June 8, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

## **REPEATED AUDIT FINDING**

The prior audit also contained a finding concerning commitment of funds by the agency prior to approval of the Plan of Operation. This finding has not been resolved and is repeated in this report.

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## **OBSERVATIONS AND COMMENTS**

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During the audit period, the Northeast Community Services Agency entered into contracts with the Departments of Children's Services and Health, specifying that the community services agency (CSA) would assist in implementing and/or operating various state programs. However, the departments' participation in these contracts was greater than indicated in the contracts. Through these contracts, state officials directly supervised CSA employees. And although these CSA employees' salaries, travel costs, and other program costs were paid by the CSA, the Departments of Children's Services and Health reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. These contracts appear to create "employer-employee" relationships between the departments and these individuals.

Programs under the supervision of the Department of Children's Services included Child Protective Services, Adoption Assistance, Foster Care, Juvenile Justice Services, and Family Crisis Intervention. According to the CSA organizational chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

Programs under the supervision of the Department of Health included Community Development and Children's Special Services Care Coordination. The programs were operated from the county or regional health offices with CSA staff and equipment. Department of Health employees supervised the CSA staff, and new CSA employees were either selected or approved by Department of Health supervisors. In some instances, the regional health director was responsible for operating the program.

The practice of allowing employees of non-state entities, such as the community services agencies, to report directly to officials or employees of the Departments of Children's Services or Health in carrying out what can be construed as state programs raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Additionally, it is unclear as to whether *Tennessee Code Annotated*, Section 37-5-315(2), completely insulates the state from legal liability. The code states, "This part [Section 37-5-315] shall not be construed as creating an employer-employee relationship between the department, the community services

agencies or their contractors. . . .” This legal concern arises from a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include, most importantly, an entity’s or individual’s right to hire or fire and the right to control the performance of a job or work.

In addition, the state apparently has incurred additional costs by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audits on the Departments of Children’s Services and Health include an audit finding on these inappropriate contracts with the Northeast Community Services Agency and other CSAs serving the departments.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control Over Financial Reporting

As part of the audit of the agency’s financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management’s response, is included in the Finding and Recommendation section of this report.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Northeast Community Services Agency.

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

November 12, 1998

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Northeast Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated November 12, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the Northeast Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable W. R. Snodgrass  
November 12, 1998  
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the Northeast Community Services Agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms

## **FINDING AND RECOMMENDATION**

### **The agency incurred expenses before contracts were properly approved**

#### **Finding**

The Northeast Community Services Agency allowed services to be rendered before the board of directors properly approved the contracts. By incurring expenditures before the contracts were officially approved, the agency committed state and federal funds without the board's authority to do so. Three of 29 contracts reviewed (10.34%) were not approved for 77 to 210 days after expenditures were first incurred.

- a. The agency contracted with an individual to provide training services. The individual began purchasing training materials in September 1997. The board of directors did not approve the contract until November 24, 1997.
- b. The agency contracted with a doctor to read the x-rays for inmates at the Northeast Correctional Complex. He began reading x-rays in July 1997. The board of directors did not approve the contract until August 25, 1997.
- c. The agency contracted for therapeutic foster care under the Flexible Funding for Families program. The Tennessee Department of Health Community Health Agency Rules and Regulations, Section 1200-20-10-.06(5) (b) states, "Purchases of services [under the Flexible Funding for Families program] where the individual purchase is greater than \$1,000.00, or where the anticipated aggregate annual purchase of like services from the same vendor is greater than \$5,000.00, require that an RFP be issued and require a purchase of service agreement." The agency exceeded the \$5,000 threshold before obtaining approval from the board of directors to enter into a contract.

The agency also entered into these fiscal year 1997-98 contracts before the contracts were approved in the Plan of Operation process. The Plan of Operation is the legal instrument governing the activities of the community services agency [*Tennessee Code Annotated*, Section 37-5-310(a)] and must be approved by the Commissioner of Children's Services, the Commissioner of Finance and Administration, and the Comptroller of the Treasury.

#### **Recommendation**

The Northeast Community Services Agency should not enter into contracts without approval from the board of directors. The agency should closely monitor those situations that may require a contract and follow up in a timely manner. The agency should not enter into contracts until the Plan of Operation has been approved.

### **Management's Comment**

- a. We concur. Here's a brief synopsis. The individual is a consultant. The consultant is a facilitator. In September 1997, the individual purchased and paid with his personal Visa for the training materials, which he uses as a facilitator. Our agency was successful in obtaining a corporate sponsorship to be used exclusively for these training materials and his services. We received and deposited a \$4,000 contribution from the sponsor on October 8, 1997. Then, we paid the individual \$3,132.30 on October 17, 1997 using the September invoice from him as supporting documentation. Our agency did not have a board meeting in September or October 1997 due to our office relocation plans. At our next available board meeting in November 1997, we obtained approval from our board members to enter into a contract with the individual to develop and lead employee team building workshops.
- b. We concur. The doctor began providing an essential service to read x-rays of inmates at NECX in July 1997 and we did receive approval from our board of directors to enter into a contract in August 1997. We feel we acted responsibly and prudently by authorizing the service prior to contract approval. Otherwise, the consequences would surely be more detrimental if we delayed providing such vital services until the contract was executed by all parties.
- c. We concur. The rules and regulations specify that a contract is required when the anticipated aggregate annual purchase from the same vendor is greater than \$5,000. We began incurring unexpected expenses in late October 1997. We anticipated the necessity to generate a contract in November 1997. We submitted the contract to the Department of Children's Services for approval as required in December 1997. We do not have board meetings in December. We obtained approval from our board to enter into the contract at our next board meeting in January 1998. Under the circumstances and the interpretation of the requirements, we feel we received authorization from our board to enter into a contract for therapeutic foster care in a timely manner.

### **Auditor's Comment**

Management's response to the finding does not alter the fact that contracts were executed before approved in the Plan of Operation process. In addition, the agency obviously authorized the provision of services prior to obtaining board approval or establishing an executed contract.

## **Independent Auditor's Report**

November 12, 1998

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying combined balance sheets of the Northeast Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Community Services Agency as of June 30, 1998, and June 30, 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass  
November 12, 1998  
Page Two

The Schedule of Pension Funding Progress and the Disclosure of Year 2000 Issues for Northeast Community Services Agency are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. In addition, we do not provide assurance that Northeast Community Services Agency is or will become year 2000 compliant, that Northeast Community Services Agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Northeast Community Services Agency does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 1998, on our consideration of Northeast Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms



NORTHEAST COMMUNITY SERVICES AGENCY  
COMBINED BALANCE SHEETS  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998				June 30, 1997			
	Governmental Fund Type	Account Groups		Totals (Memorandum Only)	Governmental Fund Type	Account Groups		Totals (Memorandum Only)
	General Fund	General Fixed Assets	General Long-Term Obligations		General Fund	General Fixed Assets	General Long-Term Obligations	
<u>Assets and other debit</u>								
Assets:								
Cash (Note 2)	\$ 1,156,837.49	\$ -	\$ -	\$ 1,156,837.49	\$ 771,341.07	\$ -	\$ -	\$ 771,341.07
Prepaid items	2,615.27	-	-	2,615.27	202.00	-	-	202.00
Accounts receivable	67.87	-	-	67.87	25.00	-	-	25.00
Due from primary government (Note 3)	169,416.90	-	-	169,416.90	501,153.68	-	-	501,153.68
Due from Hancock County - Dental Services	16,410.61	-	-	16,410.61	24,444.43	-	-	24,444.43
Due from Appalachian Regional Commission	20,485.25	-	-	20,485.25	41,250.00	-	-	41,250.00
Due from Southeast CSA	-	-	-	-	3,000.00	-	-	3,000.00
Due from TennCare Transportation MCOs	2,467.62	-	-	2,467.62	-	-	-	-
General fixed assets (Note 4):								
Furniture and equipment	-	180,979.11	-	180,979.11	-	153,330.77	-	153,330.77
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	171,265.05	171,265.05	-	-	161,147.16	161,147.16
Total assets and other debit	<u>\$ 1,368,301.01</u>	<u>\$ 180,979.11</u>	<u>\$ 171,265.05</u>	<u>\$ 1,720,545.17</u>	<u>\$ 1,341,416.18</u>	<u>\$ 153,330.77</u>	<u>\$ 161,147.16</u>	<u>\$ 1,655,894.11</u>
<u>Liabilities, other credit, and fund balance</u>								
Liabilities:								
Accounts payable	\$ 98,275.81	\$ -	\$ -	\$ 98,275.81	\$ 217,429.35	\$ -	\$ -	\$ 217,429.35
Accrued payroll	185,951.04	-	-	185,951.04	189,146.99	-	-	189,146.99
Accrued payroll taxes and benefits	37,502.58	-	-	37,502.58	43,389.12	-	-	43,389.12
Accrued annual leave	-	-	171,265.05	171,265.05	-	-	161,147.16	161,147.16
Due to primary government (Note 3)	357,574.25	-	-	357,574.25	331,327.39	-	-	331,327.39
Due to local government	40,295.22	-	-	40,295.22	1,663.40	-	-	1,663.40
Total liabilities	<u>719,598.90</u>	<u>-</u>	<u>171,265.05</u>	<u>890,863.95</u>	<u>782,956.25</u>	<u>-</u>	<u>161,147.16</u>	<u>944,103.41</u>
Other credit:								
Investment in general fixed assets (Note 4)		180,979.11	-	180,979.11		153,330.77	-	153,330.77
Fund balance:								
Reserved for prepaid items	2,615.27	-	-	2,615.27	202.00	-	-	202.00
Unreserved	646,086.84	-	-	646,086.84	558,257.93	-	-	558,257.93
Total other credit and fund balance	<u>648,702.11</u>	<u>180,979.11</u>	<u>-</u>	<u>829,681.22</u>	<u>558,459.93</u>	<u>153,330.77</u>	<u>-</u>	<u>711,790.70</u>
Total liabilities, other credit, and fund balance	<u>\$ 1,368,301.01</u>	<u>\$ 180,979.11</u>	<u>\$ 171,265.05</u>	<u>\$ 1,720,545.17</u>	<u>\$ 1,341,416.18</u>	<u>\$ 153,330.77</u>	<u>\$ 161,147.16</u>	<u>\$ 1,655,894.11</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTHEAST COMMUNITY SERVICES AGENCY  
STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	General Fund	
	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
<u>Revenues</u>		
State grants and contracts	\$ 4,798,868.53	\$ 4,611,181.23
Federal grants and contracts	38,700.00	62,479.88
Local grants and contracts	125,289.87	124,172.30
Private grants and contracts	1,500.00	-
TennCare Transportation contracts	186,777.30	188,590.07
Interest	54,384.53	41,415.67
Total revenues	<u>5,205,520.23</u>	<u>5,027,839.15</u>
<u>Expenditures</u>		
Salaries and wages	3,070,489.47	2,957,910.68
Fringe benefits	828,167.40	838,362.47
Professional services	280,692.56	166,585.88
Specific assistance to individuals	11,874.72	166,790.90
Travel	179,757.28	125,764.31
Supplies	58,392.99	49,293.27
Postage and shipping	14,593.52	12,915.91
Printing	15,659.66	7,283.30
Telephone	57,181.51	66,090.24
Grants and awards	391,179.17	280,832.75
Insurance	1,536.00	2,436.53
Occupancy	100,847.49	83,126.55
Equipment rental and maintenance	74,055.01	67,172.93
Furniture and equipment purchases (Note 4)	27,648.34	46,248.52
Interest	-	151.51
Other nonpersonnel expenses	3,202.93	20,794.40
Total expenditures	<u>5,115,278.05</u>	<u>4,891,760.15</u>
Excess (deficit) of revenues over (under) expenditures	<u>90,242.18</u>	<u>136,079.00</u>
Fund balance, July 1	<u>558,459.93</u>	<u>422,380.93</u>
Fund balance, June 30	\$ <u>648,702.11</u>	\$ <u>558,459.93</u>

The Notes to the Financial Statements are an integral part of this statement.

**Northeast Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 1998, and June 30, 1997**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission changed from providing health care services to indigent citizens in the state to coordinating care for children and other citizens in the state, CHA employees, financial assets and obligations, and fund balances now belong to the CSA. The Northeast CSA works in conjunction with the Tennessee Department of Children's Services to coordinate "funds or programs designated for care of children and other citizens in the state."

The legislation did not affect factors considered in determining reporting status. Title 37, Chapter 5, of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The Northeast Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA's governing body and approves the CSA's Plan of Operation (budget).

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

**Fund Structure, Basis of Accounting, and Measurement Focus**

The financial records of the Northeast CSA are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

The general fund is presented using the flow of current financial resources measurement focus.

The agency's accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-

**Northeast Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency's financial activities reported in the accompanying statements are classified into one fund type and two account groups:

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

**Totals (Memorandum Only)**

The total columns of the combined balance sheets are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

**Budgetary Process**

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of

**Northeast Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**NOTE 2. DEPOSITS**

The agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1998, the carrying amount of the agency's deposits was \$12,158.32, and the bank balance was \$34,506.52. The entire bank balance was insured.

At June 30, 1997, the carrying amount of the agency's deposits was \$(26,631.50), and the bank balance was \$16,768.26. The entire bank balance was insured.

The agency had \$1,144,379.17 on deposit at June 30, 1998, in the State of Tennessee Local Government Investment Pool administered by the State Treasurer and \$797,672.57 at June 30, 1997.

At June 30, 1998, and June 30, 1997, petty cash on hand was \$300.00.

**Northeast Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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**NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT**

June 30, 1998

Due from:

Department of Children's Services—program funds	\$ 91,446.32
Department of Correction—program funds	76,545.24
Local Government Group Insurance	<u>1,425.34</u>

Total due from primary government	<u><u>\$169,416.90</u></u>
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Due to:

Department of Health—program funds	\$223,115.37
Department of Children's Services—program funds	22,447.49
Department of Children's Services—leased equipment	51,857.30
Department of the Treasury—retirement contributions	15,648.88
Department of Employment Security—unemployment taxes	907.19
Comptroller of the Treasury—audit fees	38,500.00
Department of Finance and Administration— Office for Information Resources (telephone usage)	4,973.52
Department of Health—Office of Vital Records	70.00
Department of Health—Regional Health Office telephone	<u>54.50</u>

Total due to primary government	<u><u>\$357,574.25</u></u>
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June 30, 1997

Due from:

Department of Children's Services—program funds	\$ 86,601.74
Department of Correction—program funds	414,078.23
Local Government Group Insurance	<u>473.71</u>

Total due from primary government	<u><u>\$501,153.68</u></u>
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**Northeast Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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Due to:

Department of Health—program funds	\$131,315.59
Department of Children's Services—program funds	138,626.96
Department of Children's Services—leased equipment	3,864.90
Department of the Treasury—retirement contributions	15,978.50
Department of Employment Security—unemployment taxes	1,192.20
Comptroller of the Treasury—audit fees	31,988.12
Department of Finance and Administration— Office for Information Resources	8,170.50
Department of Finance and Administration (telephone usage)	30.62
Department of Health—Office of Vital Records	<u>160.00</u>

Total due to primary government	<u><u>\$331,327.39</u></u>
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**NOTE 4. GENERAL FIXED ASSETS**

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at estimated fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture and equipment	<u>\$153,330.77</u>	<u>\$27,648.34</u>	<u>\$ -</u>	<u>\$180,979.11</u>

The following changes in general fixed assets occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1997</u>
Furniture and equipment	<u>\$140,302.75</u>	<u>\$46,248.52</u>	<u>\$33,220.50</u>	<u>\$153,330.77</u>

**Northeast Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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**NOTE 5. GENERAL LONG-TERM OBLIGATIONS**

The following changes in general long-term obligations occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	\$ <u>161,147.16</u>	\$ <u>10,117.89</u>	\$ <u>171,265.05</u>
Accrued annual leave	\$ <u>161,147.16</u>	\$ <u>10,117.89</u>	\$ <u>171,265.05</u>
Total general long-term obligations	\$ <u>161,147.16</u>	\$ <u>10,117.89</u>	\$ <u>171,265.05</u>

The following changes in general long-term obligations occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1997</u>
Amount to be provided for retirement of general long-term obligations	\$ <u>133,380.76</u>	\$ <u>27,766.40</u>	\$ <u>161,147.16</u>
Accrued annual leave	\$ <u>133,380.76</u>	\$ <u>27,766.40</u>	\$ <u>161,147.16</u>
Total general long-term obligations	\$ <u>133,380.76</u>	\$ <u>27,766.40</u>	\$ <u>161,147.16</u>

**NOTE 6. OPERATING LEASE**

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$82,390.00 and \$15,612.24 for the year ended June 30, 1998, and were \$81,900.00 and \$12,862.34 for the year ended June 30, 1997. All



**Northeast Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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leases except for the automobile and the postage machines were cancelable at the lessee's option.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 1998:

Year Ending <u>June 30</u>	
1999	\$6,375.96
2000	<u>2,147.33</u>
Total minimum payments required	<u><u>\$8,523.29</u></u>

In addition, the State of Tennessee has entered into cancelable lease agreements for space and equipment on behalf of the agency. The agency reimburses the state for these lease payments yearly. Total reimbursements to the state for operating leases were \$69,457.94 for the year ended June 30, 1998, and were \$47,460.79 for the year ended June 30, 1997. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

**NOTE 7. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

**Northeast Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202, ext. 135.

**B. Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a non-contributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 7.94% of annual covered payroll. The agency contributed \$241,579.45 for the year ended June 30, 1998. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

**C. Annual Pension Cost**

The agency's annual pension cost of \$241,579.45 for fiscal year 1998 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1995, was 23 years.

**Northeast Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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**Three-Year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1998	\$241,579.45	100%	\$ -
June 30, 1997	\$231,157.89	100%	\$ -

Information is shown only for the years available. Additional years will be shown as they become available.

**NOTE 8. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$194,090.77 at June 30, 1998, and \$176,267.90 at June 30, 1997.

**NOTE 9. DONATED FACILITIES**

The Department of Health donated office space and utilities to the Northeast Community Services Agency for the period July 1, 1997, through October 24, 1997. The value of the donation is not recorded in the financial statements.

**NOTE 10. RISK MANAGEMENT**

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.

**Northeast Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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- B. The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Claims are administered by Blue Cross and Blue Shield of Tennessee, which is currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee.

**Northeast Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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**NOTE 11. PRIOR-PERIOD RESTATEMENT**

Several amounts had to be restated for the fiscal year ending June 30, 1997. The general fixed assets furniture and equipment account and the investments in general fixed assets account in the General Fixed Assets Account Group both had to be increased by \$29,058.47. These restatements were made to recognize nonagency items that were included in the deletions for disposal of equipment and deletions for nonagency items for fiscal year ending June 30, 1997.

**Northeast Community Services Agency  
Required Supplementary Information  
Schedule of Pension Funding Progress**

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/97	\$1,773,221	\$1,934,936	\$161,715	91.64%	\$2,911,300	5.55%

Information is shown only for the years available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

## **Northeast Community Services Agency Required Supplementary Information Disclosure of Year 2000 Issues**

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The Year 2000 Issue (Y2K) arises because many computer software programs allocate two digits to the data field for year with the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent programming logic to the contrary. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could affect both the ability to enter data into computer programs and the ability of such programs to correctly process data.

Northeast Community Services Agency has examined the impact of Y2K on its computer systems and other electronic equipment critical to conducting operations as of June 30, 1998. "Computer systems" are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. "Other electronic equipment" is defined as any electronic hardware with embedded processors, such as fax machines and telephone systems.

Northeast Community Services Agency has identified its administrative computer network, Cougar Mountain Software, Traxit Software, System Backups, and Agency Banking Systems as computer systems and other equipment critical to conducting operations which are under the agency's administration. The agency is subjecting those systems to the following stages of work to address Y2K issues.

<i>Awareness stage</i>	Establishing a budget and project plan for dealing with the Y2K issue.
<i>Assessment stage</i>	Identifying the systems and components for which Y2K compliance work is needed.
<i>Remediation stage</i>	Making changes to systems and equipment.
<i>Validation/testing stage</i>	Validating and testing the changes that were made during the remediation stage.

As of June 30, 1998, Northeast Community Services Agency was in the awareness stage for each of these systems. The agency expects to complete the remaining stages of work by September 30, 1999. However, completion of the stages will not guarantee that systems and equipment will be Y2K compliant.

The state provided the Client Operation and Review System and computer network systems which are utilized by Northeast Community Services Agency under the administrative assistance of the Department of Children's Services. The agency has begun soliciting information from the

**Northeast Community Services Agency  
Required Supplementary Information  
Disclosure of Year 2000 Issues (Cont.)**

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department and other organizations regarding the status of their assessment, remediation, and testing of their computer systems whose Y2K compliance could affect the agency's operations.

Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on Northeast Community Services Agency's operations or financial status, although no assurances can be given that circumstances will not change. The agency does not have full and complete information from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a materially negative impact on the agency's operations or financial status.

The Northeast Community Services Agency's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period. The agency is not aware of any circumstances or significant costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the agency.



## **APPENDIX**

### **NORTHEAST COMMUNITY SERVICES AGENCY**

Mrs. Wilhelmina Williams, Executive Director

#### **BOARD OF DIRECTORS**

##### Board Officers

Ms. Cleo Reed, Chair  
Dr. Burgin Dossett, Jr., Vice-Chair  
Mr. Bobby Larkins, Treasurer  
Ms. Carolynn Kinser, Secretary

##### Executive Committee Members

Dr. Burgin Dossett, Jr.  
Mr. Michael Harrison  
Ms. Carolynn Kinser  
Mr. Bobby Larkins  
Ms. Cleo Reed

##### Other Members of the Board of Directors

Ms. Judy Cole  
Ms. Connie Givens  
Mr. Ron Helsabeck  
Ms. Brenda Kegley  
Mr. George Lowe